Briefs

Livestock, Dairy, & Poultry

U.S. Sheep Industry Continues To Consolidate

The U.S. sheep industry continues a long decline marked by shrinkage in inventories, prices, and revenues. The industry also bears the brunt of heightened concerns about sheep-borne animal diseases, as well as recent removal of a tariff-rate quota (TRQ) on imported lamb meat from Australia and New Zealand. And while 5 years have passed since the 3-year phaseout of the National Wool Act, the industry still feels the loss of the Act's price support programs.

However, there are several positive currents: domestic lamb and mutton consumption has held fairly steady for the past decade, while production in major lamb exporting countries is on the decline. In addition, U.S. sheep producers recently received Federal funding for new marketing, promotion, and animal health improvement programs.

It is clear that the glory years for the U.S. sheep industry have passed. From a 1942 peak of 56 million head, the number of sheep in the U.S. shrank to 6.9 million head on January 1, 2001, 2 percent below the 2000 level, and will likely contract a further 2 percent in 2002. The number of sheep operations is also declining, though at a slower rate than the sheep inventory. Sheep operations, totaling 66,000 in 2000, are expected to continue declining in 2001 and 2002.

Production, like inventory, is on a downswing. For the first half of 2001, output of lamb and mutton was nearly 7 percent below a year earlier, even with dressed weights averaging 2-4 pounds heavier and with strong slaughter lamb prices averaging in the low $80s per cwt. Expectations of continued price strength had encouraged producers to keep lambs on feed longer, resulting in overfinished, less desirable market animals at higher-than-normal dressed weights. The result was rapidly declining prices. Lamb prices are expected to recover in early 2002 when the problem of overweight lambs abates and when seasonal demand begins accelerating in midwinter.

The seasonal price change defied the usual pattern for lamb prices, which generally rise in spring due to increased lamb consumption during religious celebrations. This year, high prices convinced producers to feed lambs to heavier weights, expecting strong prices to continue into the third quarter when production typically declines. But first-quarter production was only 6.3 percent below a year earlier, due largely to an average gain of 5 pounds above the normal dressed weight. Dressed weights remained fairly high for the second, third, and fourth quarters of 2001, keeping production slightly ahead of a year earlier. Despite slight spurs to lamb consumption during the Muslim holy month of Ramadan and the U.S. holiday season, price gains were negligible.

Imports Spike In the 1990s

Lamb and mutton imports have trended upward since the mid-1980s, with very sharp increases since 1994. Australia and New Zealand, the primary U.S. suppliers of imported lamb, provide 98 percent of all of U.S. imports. Lamb supplied by these countries, which comes from smaller, grass-fed animals, has found favorable consumer acceptance in the U.S.

Following the rapid rise in lamb imports in the mid-1990s, in July 1999, the U.S. established a 3-year TRQ on lamb imports from New Zealand and Australia, fated to be struck down by a World Trade Organization (WTO) ruling in less than 2 years. Despite implementation of the TRQ, imports from Australia and New Zealand did not slow; effects of the tariffs were largely offset by weak Australian and New Zealand currencies.

The TRQ for the first year (July 22, 1999-July 21, 2000) was 70.2 million pounds product weight, with an *ad valorem* duty of 9 percent, and an over-quota duty of 40 percent. During the first year of the TRQ, approximately 76 million pounds of lamb was imported from Australia and New Zealand. During the second year (July 22, 2000-July 21, 2001) the TRQ increased to 72.1 million pounds product weight, and the duties declined to 6 percent and 32 percent. Growth of lamb imports accelerated in the second year by about 23 percent. According to customs data, over-quota imports from Australia and New Zealand were 22.8 million pounds and 3.2 million pounds, respectively.

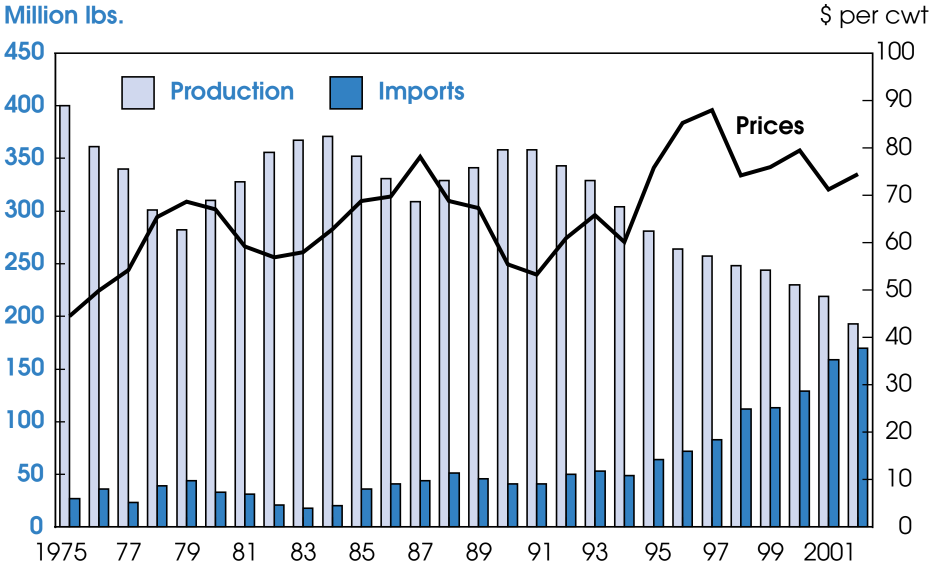
In 2000, imported lamb and mutton comprised nearly 37 percent of consumption, compared with 10 to 12 percent in the early 1990s. Imports in 2000 were 14.7 percent higher than in 1999 and 102 percent higher than 5 years earlier.

Currency exchange rates made the U.S. market profitable for Australia and New Zealand, particularly in 1998 when the U.S. dollar appreciated against the Australian and New Zealand currencies by more than 18 percent and 24 percent. For example, in January 1998, U.S. lamb prices of $74 per cwt meant an equivalent return to Australian lamb exporters of $114 per cwt in Australian currency. By December 1998, U.S. lamb prices had declined to $71 per cwt, but the return to Australian exporters in Australian currency was up 4.3 percent from January. Again in 1999 and 2000, further appreciation of the U.S. dollar allowed Australia and New Zealand to effectively manage the TRQ, even at over-quota tariffs of 40 percent in 1999 and 32 percent in 2000.

In May 2001, a WTO panel, acting on complaints filed by New Zealand and Australia, ruled against the U.S. tariffs. The appellate body recommended that the U.S. bring its tariff restriction on lamb meat imports into conformity with its obligations under the WTO agreement on safeguards and the General Agreement on Tariffs and Trade (GATT) of 1994. The U.S. complied with the WTO ruling and removed the tariffs on November 15, 2001.

Imports of lamb and mutton are expected to total 150 million pounds in 2001, up 16 percent over 2000. In the first 9 months of 2001, imports totaled nearly 110 million pounds, up 15 percent from the same

Rising U.S. Imports of Lamb and Mutton Are Converging with Domestic Production Levels



2001 and 2002 forecast.
Economic Research Service, USDA

period last year, nearly equivalent to imports for the entire year in 1998. Imports of lamb and mutton will continue to increase at least well into 2002.

The U.S. sheep industry is still strongly affected by elimination of the National Wool Act program in 1993. Elimination of the wool and mohair programs resulted in loss of a guaranteed portion of income for sheep producers. Public Law 103-130, signed into law November 1, 1993, mandated a 3-year phaseout of the National Wool Act programs, including direct price support payments to producers.

In the 4 years prior to termination (1990-93), direct payments to wool producers based on quantity produced averaged $122 million per year. Market value of the wool produced in those years averaged $53 million per year, equivalent to just 43 percent of the direct payments. In the 5-year period following elimination of the program, wool inventory declined 22 percent. Wool production and prices have since remained flat. Because of the strong U.S. dollar, wool imports have increased while U.S. exports of fine wool have declined. In addition, the drop in sheep numbers will continue to cause decline in the domestic wool industry into the near future.

The sheep industry continues to benefit from several cooperative initiatives between the private and public sectors. In December 1999, USDA and the sheep industry embarked on a number of improvement efforts, including the 3-year, $100 million Lamb Industry Assistance Package, instituted in January 2000 to help the industry become more competitive in the global economy. The package includes four major elements: direct payments to producers; animal health; marketing and promotion; and government purchase of lamb meat. The package was designed to increase the competitiveness of domestic lamb.

On November 15, 2001, when the U.S. acted to comply with the WTO ruling by removing tariffs on Australian and New Zealand lamb, USDA's Lamb Meat Adjustment Program was extended through July 31, 2003, and $37.7 million in federal aid was added to boost the domestic sheep industry. Of that amount, $26 million will be allocated to purchase or retain ewe lambs, while the remainder is restricted to direct payments to producers for slaughter and feeder lambs.

Sheep numbers are declining not only in the U.S., but also in the world's primary lamb exporting countries, Australia and New Zealand. At the same time, demand for specialized prime lamb cuts geared to different export markets is on the increase. With declining production, Australia and New Zealand will be hard-pressed to increase exports and at the same time fulfill domestic requirements. Given the biology of the sheep, it will take Australia and New Zealand at least 2 years to recover to the point where production can comfortably meet expected domestic and export demands. For the U.S. sheep industry, the production lag in Australia and New Zealand presents temporary relief from competition—an opportunity to rebuild its stock and recover some of its lost market share. AO

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January

11 World Agricultural Supply and Demand Estimates (8:30 a.m.)
*14 Oil Crops Outlook (4 p.m.)***
*Rice Outlook (4 p.m.)***
*15 Wheat Outlook (9 a.m.)***
*Feed Outlook (9 a.m.)***
16 Livestock, Dairy, and Poultry Situation and Outlook (4 p.m.)
22 U.S. Agricultural Trade Update (4 p.m.)
*24 Sugar and Sweeteners Outlook (4 p.m.)**
31 Fruit and Tree Nuts Outlook (4 p.m.)
Sugar and Sweeteners Outlook (4 p.m.)

**Release of summary.*
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